

IRS News Release

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National Taxpayer Advocate Releases Report to Congress; Cites Need to Balance Taxpayer Service with Enforcement

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WASHINGTON — National Taxpayer Advocate Nina E. Olson has delivered a report to Congress that discusses the central role taxpayer service plays in facilitating voluntary compliance with our tax laws and cautions that excessive focus on enforcement at the expense of taxpayer service could have the effect of both reducing voluntary compliance and alienating taxpayers.

The Advocate's report, which is required by law, urges the IRS to focus more broadly on steps to increase voluntary compliance. "Today, the IRS's explicit and primary focus is on increasing its enforcement activity. While this goal is laudable, it is very narrow," Olson writes. "As Congress noted in RRA 98, the IRS is far more than an enforcement agency — it must serve all taxpayers. Thus, the IRS should specifically state that its primary organizational goal is to increase voluntary compliance."

The report sets out the objectives of the Office of the Taxpayer Advocate for the upcoming fiscal year and provides substantive analysis of issues as well as statistical information. Objectives are grouped under the headings of systemic advocacy, TAS research initiatives, Taxpayer Advocacy Panel, Low Income Taxpayer Clinics, case advocacy, training and employee development, and TAS outreach.

The report identifies four areas for particular emphasis in FY 2006:

1. Private Debt Collection Initiative. In the American Jobs Creation Act of 2004, Congress granted IRS the authority to use private debt collectors to collect certain tax debts, and the IRS is working actively to develop and implement the initiative by early 2006. In FY 2006, Olson's office will work with the IRS on the design and implementation of the initiative to protect taxpayer rights. Olson has identified seven areas for particular attention — contractor training, policies and procedures, taxpayer privacy, notices, complaint processes, case selection criteria and exclusion codes, and contractor monitoring and case research. Olson's office also will work with the IRS to establish procedures under which taxpayers who feel they have been dealt with unfairly by debt collectors can seek assistance from the Taxpayer Advocate Service (TAS) to the same extent as would be permitted if IRS personnel were collecting the debt.

2. Collection Due Process (CDP) Hearings. CDP hearings afford taxpayers a meaningful opportunity to be heard about certain issues, including collection

alternatives, between the time the IRS places a lien on the taxpayer's property and the time the IRS can levy on the property. While many taxpayers use the CDP process for the reasons intended, some taxpayers seek CDP hearings simply to delay the collection process. Olson expresses concern that steps under consideration by the IRS to address CDP abuses may have the effect of impeding legitimate uses of the process. She has been working with the IRS to strike the appropriate balance and will continue to do so in FY 2006. She also intends to make a legislative recommendation in her year-end report to Congress to improve the CDP process from both the taxpayer's and the IRS's perspectives.

3. Offer-in-Compromise (OIC) Program. The OIC program allows the IRS and taxpayers who are unable to pay their tax liabilities in full to reach agreement on the amount the taxpayer is able to pay and allow the taxpayer to make a fresh start. The OIC program is designed to improve compliance. Research indicates that the IRS only collects 13 percent of tax debts that are more than two years old. By contrast, accepted offers bring in 16 percent of tax debts owed, and a recent study showed that about 80 percent of taxpayers whose offers are accepted remain in compliance during the subsequent five years. While the Advocate's report acknowledges the OIC program can be difficult to administer because IRS personnel must make judgments about the unique facts of each case, Olson writes that TAS continues to receive complaints from taxpayers and practitioners concerning the IRS process for determining an acceptable offer amount, particularly with the regard to the application of allowable expense standards. In FY 2006, TAS will work with the IRS on this and other OIC issues.

4. Taxpayer Service Research. The Advocate's report suggests a number of areas for research to enable the IRS to identify and quantify the relationship between the variety of taxpayer services the IRS delivers and the impact of those services on taxpayer compliance. In particular, the report urges the IRS to conduct more research on the impact of taxpayer service on taxpayer compliance. Although the IRS Strategic Plan for 2005-2009 states that "Service + Enforcement = Compliance," Olson states that the IRS has not conducted research seeking to determine the optimal allocation of resources between service and enforcement. "Consequently," Olson writes, "the IRS does not know whether recently proposed reductions in customer service will save the government money, since the potential impact on taxpayer compliance can not be quantified."

The Advocate's report also discusses the relationship between TAS and the IRS. Noting that the relationship can potentially follow either a partnership model or an adversarial model, Olson expresses a strong preference for a partnership relationship. However, she notes that when IRS enforcement employees are placed under pressure to quickly produce quantifiable results, there is a tendency to view TAS's participation in program development as interference rather than assistance. While she writes that some of the significant taxpayer-protection changes required by the IRS Restructuring and Reform Act of 1998 could be reviewed for fine-tuning, she maintains that three of the Act's underlying principles are central: (1) taxpayer service should be taxpayer-centric and

designed around the characteristics of taxpayer segments; (2) IRS employees should be evaluated under a system of balanced measures — not on the basis of enforcement results; and (3) IRS should balance its efforts to increase voluntary compliance with a healthy respect for taxpayer rights and the provision of high-quality taxpayer service.

The Taxpayer Advocate Service (TAS) is an independent organization within the IRS which ensures tax problems that have not been resolved through normal channels are handled promptly and fairly. There is at least one Local Taxpayer Advocate in each state. TAS can help if a taxpayer is facing:

- An economic hardship or significant cost;
- A delay of more than 30 days to resolve an issue; or
- An action, response, or resolution deadline promised by the IRS that has not been met.

Qualified taxpayers will receive personalized service from an Advocate. The Advocate will listen to the taxpayer's problem, explain what needs to be done to resolve it, and work with the taxpayer every step of the way until the problem is resolved to the fullest extent permitted by law.

Because the Taxpayer Advocate Service is part of the IRS, Advocates know the tax system and how to navigate it. Because TAS has statutory independence within the IRS, Advocates are impartial. They will work on the taxpayer's case until it is fully resolved. And if it turns out that the problem affects a significant number of taxpayers, TAS has the authority to work within the IRS and with Congress to change the rules or procedures.

Taxpayers can gain quick access to TAS by calling TAS's toll-free number: 1-877-777-4778, TTY/TTD 1-800-829-4059. Or taxpayers can call or write to their local Taxpayer Advocate, whose address and phone number are listed in local telephone directories and in IRS Publication 1546, How to Get Help With Unresolved Tax Problems.

Links:

- National Taxpayer Advocate's Fiscal Year 2006 Objectives Report to Congress — <http://www.irs.gov/advocate/article/0,,id=97404,00.html>
- Taxpayer Advocate Service — <http://www.irs.gov/advocate/index.html>